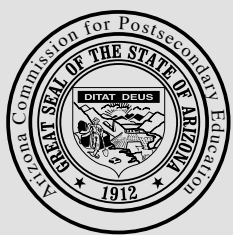




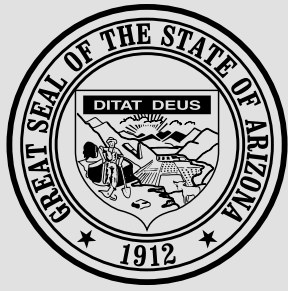
# envisioning your child's college goal



## College Savings Planner

For parents and grandparents

Presented by the Arizona Commission for Postsecondary Education



## College Savings Proclamation

**Whereas**, Arizona families recognize that a college education is one of the most important things we provide for our children to prepare them for success in life; and

The constantly rising costs of a college education continue to outpace inflation and, without proper planning, those costs can jeopardize a family's ability to ensure their children have access to higher education; and

College is an investment that will pay off given that the earnings gap between those with a high school diploma and those with a bachelor's degree or beyond exceeds \$1 million over a lifetime; and

Over the past decade, education loan volume increased by 137 percent to over \$66 billion, and at the end of that period loans constituted over 56 percent of education financial aid; and

Almost two-thirds of college students graduate with debt, and many college graduates repay large amounts of debt long after they have completed their education; and

It is in the best interest of Arizona families to encourage saving for higher education expenses so that access to educational opportunities is enhanced for our children, grandchildren, and others, without the crushing burden of education loan debt; and

In accordance with state and federal law, the State of Arizona operates the Arizona Family College Savings Program, a Section 529 college savings plan that offers both state and federal tax advantages to encourage saving for the expense of higher education and to promote educational opportunity for all Arizonans; and

Since 1999, more than 42,000 accounts have been opened in the Arizona Family College Savings Program with more than \$280 million in assets accumulated; now

I, Janet Napolitano, Governor of the State of Arizona, do hereby proclaim October, as COLLEGE SAVINGS MONTH in Arizona and call upon all Arizonans to join me in recognizing the value of postsecondary education and to begin saving early and consistently for our children's future.

**In witness thereof**, I have hereunto set my hand and caused the Seal of the Executive Department to be affixed this 1st day of October in the year of our Lord two thousand five.

Governor Janet Napolitano



Going to college and obtaining a college degree is an American dream. In 2000, 27% of the U.S. population ages 25-44 obtained a bachelor's degree or higher.\* This statistic would undoubtedly be higher if more potential college students had access to funds needed to cover college expenses. Lack of funds is the primary reason why most would-be college students do not pursue their college dreams.

This College Savings Planner has been developed by the Arizona Commission for Postsecondary Education in order to help parents, grandparents and caregivers begin the college preparation process. By providing the opportunity to save, children will have an increased likelihood to attend college and make their college goal... a reality.

## **College is an investment that pays off-**

The earning gap  
between those with a  
high school diploma and  
those with a bachelor's  
degree or beyond- exceeds  
**\$1 million**  
**over a lifetime.\*\*\***



## **oceanographer**

### **Getting the Facts**

If you are one of the 93% of parents who expect their child to continue their education after high school,\*\* planning and preparing for this goal are vital to making this a reality. This College Savings Planner will review:

- average college costs
- various types of financial aid available
- when college savings should begin and how much
- options families have to save
- savings options through the Arizona Family College Savings Program

\*Source: National Center for Higher Education Management Systems News, (May 2003):6.

\*\*Source: www.CollegeBoard.com, (August 2005).

\*\*\*Source: U.S. Department of Education Web site (www.ed.gov), (July 2000).



news anchor

College graduates  
enjoy improved health,  
longer life expectancy, and  
increased civic  
participation.\*

## Parents

Most parents want to provide their children with the best of everything the world has to offer. Whether your child aspires to be a scientist, lawyer, chef or politician, the Arizona Commission for Postsecondary Education wants to find a way to help make their dreams come true. As parents, preparing early for college will position you to make college a reality for your child.

## Grandparents

Grandparents want to be able to provide the world to their grandchildren. Often grandparents are in a more favorable place in life to begin preparing and planning for their grandchild's educational pursuits. The gift of a brighter future is often the most treasured gift of all.

At age **25**, Arizona  
college graduates on  
average earn **111% more**  
than high school  
graduates.\*



nurse

\*Source: "The Investment Payoff: A 50 State Analysis of the Public and Private Benefits of Higher Education." The Institute for Higher Education Policy, (February 2005):24.



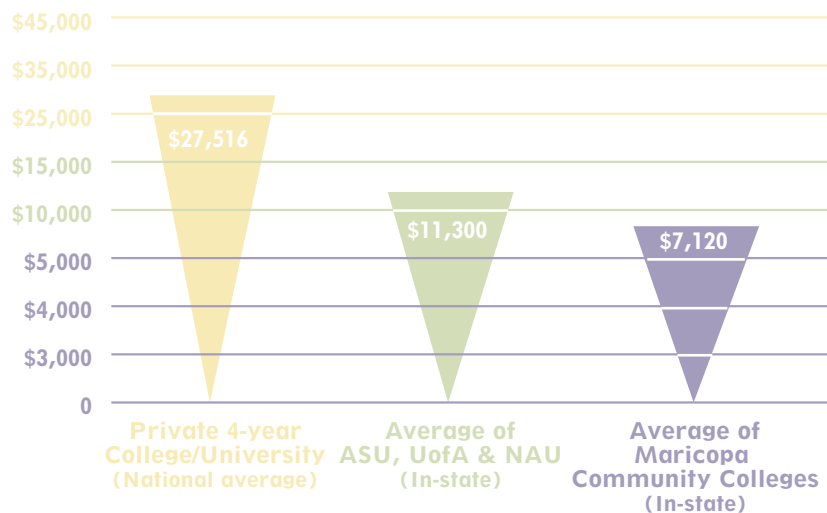
**8%** is the projected  
**rate** of college  
**cost increases** on  
an **annual** basis\*

## The Costs

Over the past 20 years, college costs have risen more than twice the rate of inflation. For many parents, funding their child's college education will be one of the largest and most significant expenses.

Therefore, saving money for your child's college education requires foresight and planning. However, before any such planning can be started, a savings goal should be established. Exactly how much will it cost to send your child to college? Through research, you will be able to estimate the amount of money needed to send your child to a private university, a public institution, a community college or vocational training center. You may choose to set aside a fixed dollar amount of your income and select an investment plan. Define what your goals are and determine the best path to reach them.

### Tuition, and Room and Board\*\* annual costs for various postsecondary institutions



\*Source: "Trends in College Pricing 2004:Trends in Higher Education Series". College Board (2004):5.

\*\*Source: [www.CollegeBoard.com](http://www.CollegeBoard.com) (2004-2005)

## Savings Plan Worksheet

By completing this worksheet, you will develop an estimate of the amount of money needed to meet one child's college-going expenses. Most importantly, save whatever you can afford and begin saving early.

### IDENTIFY COSTS

	EXAMPLE	YOUR ESTIMATE
1. Current annual college costs (From table 1) (Example assumes public in-state.)	\$11,300	
2. Number of years until college	5	
3. Future annual college costs (Multiply line 1 by factor in table 2) (Example assumes 8% annual inflation rate.)	\$16,611	
4. Number of years for college attendance	4	
5. Projected cost of college at year one (Multiply line 3 by line 4) (Note: projection does not allow for inflation rate for subsequent years of college attendance)	\$66,444	

### IDENTIFY SAVINGS NEEDS

6. Total cost of college (From line 5)	\$66,444	
7. Current college savings (if any)	\$10,000	
8. Value of current investments when college starts (Multiply line 7 by factor in table 3)	\$14,000	
9. <b>Shortfall</b> (Subtract line 8 from line 6)	\$52,444	
10. Estimated investment of a one time lump sum (Multiply line 9 by factor in table 4)	\$37,235	
11. Estimated investment needed on monthly basis (Multiply line 9 by factor in table 5)	\$734.22	

**Table 1: Average College Attendance Costs\***

	Tuition	Room and Board	Annual Total Projection
Private College/University	\$20,082	\$7,434	\$27,516
Public University (In-State)	\$4,430	\$6,870	\$11,300
Community College (In-State)	\$1,810	\$5,310	\$7,120

\*Source: [www.CollegeBoard.com](http://www.CollegeBoard.com) (2004-2005).

# zoologist



**23.4%** of the Arizona population ages **25-44 years** have a bachelor's degree or higher\*

**Table 2: Rising Cost Index**

Years Until College	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
8% Inflation Rate - Multiply By:	1.08	1.17	1.26	1.36	1.47	1.59	1.71	1.85	2.00	2.16	2.33	2.52	2.72	2.94	3.17	3.43	3.70	4.00

**Table 3: Growth Index** (Assumes 7% Annual Rate of Return)

Years Investing	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Multiply By:	1.07	1.14	1.23	1.31	1.40	1.50	1.61	1.72	1.84	1.97	2.10	2.25	2.41	2.58	2.76	2.95	3.16	3.38

**Table 4 & 5: Necessary Investment Index**

Years Until College	Table 4 Contribution - Lump Sum	Table 5 Contribution - Monthly	Years Until College	Table 4 Contribution - Lump Sum	Table 5 Contribution - Monthly
1	0.93	0.0803	10	0.51	0.0058
2	0.87	0.0388	11	0.48	0.0051
3	0.82	0.0250	12	0.44	0.0045
4	0.76	0.0181	13	0.41	0.0040
5	0.71	0.0140	14	0.39	0.0036
6	0.67	0.0112	15	0.36	0.0032
7	0.62	0.0093	16	0.34	0.0029
8	0.58	0.0078	17	0.32	0.0026
9	0.54	0.0067	18	0.30	0.0024

\*Source: [National Center for Higher Education Management Systems News](#), (May 2003):6.

## Types of Financial Aid

Four types of financial aid programs make up the majority of financial aid. These programs are made available and funded by the federal government, the State of Arizona, and various private organizations. These four groups include:

- Grants
- Loans
- Scholarships
- Work Study

### *Need Based vs. Merit Based*

Need based is defined as financial aid programs that are awarded based on the financial situation of the student and/or their family. Merit based is defined as financial aid awards that are given in response to met criteria. Academic scholarships and athletic scholarships are examples of merit awards.

Types of Financial Aid	Need Based	Merit Based
Grants	X	
Loans	X	
Scholarships	X	X
Work Study	X	

### Federal Grants

Grants are forms of financial aid that do not need to be repaid. Grants are typically provided to students from limited-income families and are need based in nature. There are several types of grants available to eligible students including:

#### *Pell Grant*

This federally funded program provides assistance for educational expenses based on need, academic load, length of enrollment and the costs of the education. Awards typically range from \$400-\$4,050 a year.

*Supplemental Educational Opportunity Grant (SEOG)*  
This federally funded program is granted to students who demonstrate exceptional need and are also eligible for Pell Grants.

### Loans

Loans are federally or privately funded sources of assistance that must be repaid with interest at the conclusion of a student's college attendance.

#### *Federal Stafford Student Loan*

Students may qualify for a "subsidized" Federal Student Loan based on their identified financial need or an "unsubsidized" Federal Stafford Loan, which does not take into consideration their own or their family's household income levels.

#### *Federal PLUS Loan*

These loans are available to parents who want to borrow monies to help pay for their child's education. These loans have variable interest rates.

### Scholarships

Scholarships are granted to students and are often based on performance in a particular area such as academics or sports. There are several websites which list the thousands of various types of scholarships available. Visit the Arizona Commission for Postsecondary Education website listed below for more information.

### Work Study

#### *Federal Work Study (FWS)*

This need based program provides jobs for students who have applied for financial aid and are eligible to work as part of their financial aid award package. Students participating in this program may work on or off campus and the money earned is paid directly to the student to cover various types of expenses.

**Visit the Arizona Commission for  
Postsecondary Education website for  
complete details-[www.azhighered.gov](http://www.azhighered.gov)**

## Start Early - Save Regularly

The majority of college students do not receive sufficient grant or scholarship money to cover all of their college expenses. Most of these students must obtain loans in order to complete their educational goals.

It is important to start saving early. A child's educational expenses may be

reduced by the growth of compounding income held in an account over a long period of time.

There are many vehicles that may be used for college savings purposes. Below is a snapshot of the various savings options available to parents and grandparents.

### Savings Options Available\*

	Section 529 Plans	Series EE and I Savings Bonds	Coverdell Educational Savings Accounts	Traditional and Roth IRAs	Borrowing From 401(k)	UGMA/UTMA	Mutual Funds
Tax Benefits	Growth of any earnings are tax-deferred. Qualified distributions for higher education expenses are federal and Arizona state income tax-free.**	Earnings state and local tax exempt, federal income tax deferred. For qualified taxpayers, earnings fully or partially excludable from federal income tax, if used for qualified higher education expenses	Tax-deferred growth, qualified distributions are federal tax-free	Traditional IRA may be tax-deductible. Earnings on any pre-tax contributions are taxed at owner's rate when withdrawn. Earnings on Roth IRA, tax exempt for qualified distributions	No special tax benefits	Depends on child's age	No special tax benefits
How Much Can Be Invested?	Currently, the maximum account balance limit for Arizona is \$289,000. This varies by state.	Up to \$30,000/\$15,000 per year for I/EEzonds	Up to \$2,000 per year	Years 2005-2007: up to \$4,000 Year 2008: \$5,000	The lesser of the \$50,000 or one-half of the vested amount can be borrowed	No limit	No limit
Qualified Expenses	Tuition, fees, books, supplies, room and board, and equipment. Also an allowance for living at home and expenses of special needs	Tuition and fees only	Tuition, fees, books, supplies, room and board, and equipment. Also an allowance for living at home and expenses of special needs for elementary and secondary education.	Tuition, fees, supplies, book, room and board	Any expense.	Must be used for child's benefit. Once an adult, child has unrestricted access	Any expense
Financial Aid Treatment	The account is considered an asset of the parent or account owner, not the beneficiary.	Considered an asset of owner depending on tax bracket	Student's assets	Not considered in EFC calculation	Not considered in EFC calculation	Student's assets	Parent's assets
Income Restriction?	No	Yes. Restricted benefits if income is too high when redeemed	Yes	Traditional IRA: No Roth IRA: Yes	No	No	No
Impact on Education Tax Credits?	No	Yes	No	No	No	No	No
Penalties for nonqualified withdrawals	Earnings on nonqualified withdrawals taxed at owner's rate. 10% penalty on earnings	Three months of interest forfeited if redeemed within first five years	Earnings on nonqualified withdrawals taxed at owner's rate. 10% penalty on earnings	No penalty on early withdrawals if used for higher education expenses. Earnings of early withdrawals taxed at the owner's rate	Money can be borrowed almost anytime for any purpose.	Money can be withdrawn any time for the benefit of the child.	Money can be redeemed at any time for any purpose.

\*Please consult a financial professional for more information before investing.

\*\*Pursuant to Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") qualified distributions are federal income tax free. The provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress and the President, the federal tax treatment of 529 plans will revert to its status prior to January 1, 2002.

## The Arizona 529 Savings Plan

A 529 Plan is similar to a 401k or an IRA. The plan is designed to provide a parent, grandparent or other caregiver an opportunity to save for a child's educational pursuits within a tax-deferred savings vehicle.\*

The State of Arizona offers one of the most diversified 529 plans in the country. Arizona's 529 Savings Plan benefits include:

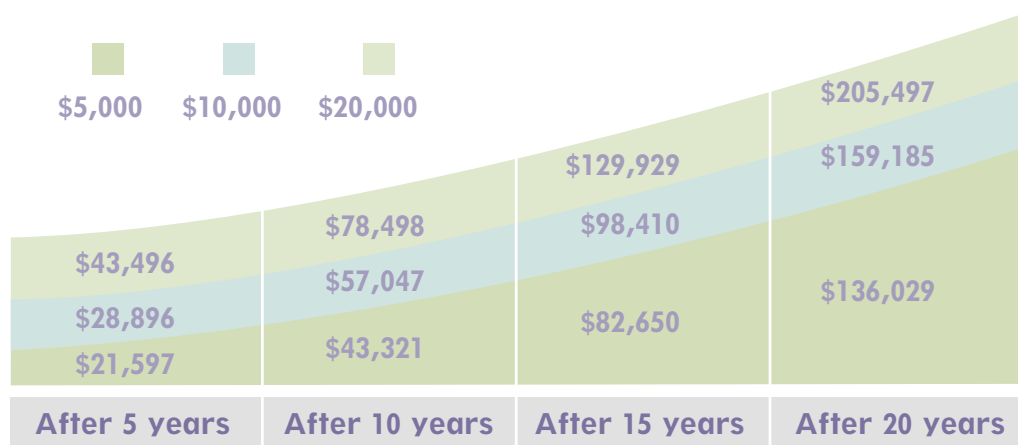
- qualified distributions that are exempt from federal income tax
- qualified distributions that are exempt from Arizona income tax for Arizona taxpayers
- college savings offered through multiple providers that include choices of CD's, mutual fund options, and age-based portfolios
- contributions to accounts that grow on a tax-deferred basis
- assets that are not considered when determining Arizona financial aid awards
- savings that can be used at most accredited universities, colleges, private colleges and training schools in the United States, as well as eligible foreign institutions
- the allowance for *anyone* to make contributions
- the ability to begin saving with as little as \$20 a month
- the option to change account beneficiaries at any time



## The Power of Tax-Deferred Compounding

**Initial Investment with a \$200 monthly contribution**

**Hypothetical Example - using 8% rate of return**



The rate of return in graph is not guaranteed and is provided for illustrative purposes only.

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**actor**

Only **2%** of  
college students  
**receive**  
**scholarships\***

## The Arizona 529 Savings Plan

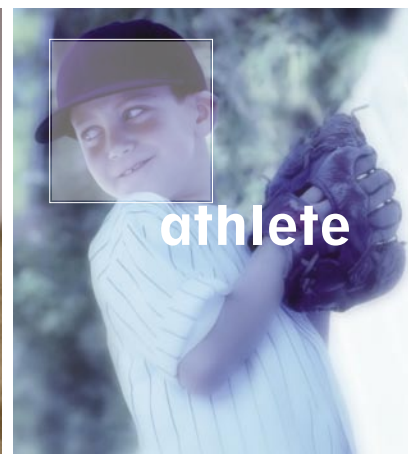
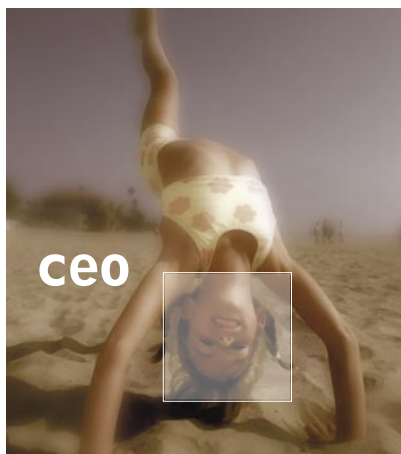
The Arizona Family College Savings Program offers a wide variety of choices through five financial institutions. Choices include CD's, advisor-sold mutual fund options, direct-sold mutual fund options, passively and actively managed accounts, age-based portfolios, and self-designed custom strategies. Choices are offered so that your investment goals can be targeted for the timeline that best fits your needs.

Institution	Options Available	Advisor Sold	Direct Sold	Minimum Contribution
<b>College Savings Bank</b> 1-800-888-2723	CollegeSure® Certificates of Deposit	N/A	X	\$250 initial; with \$250 minimum subsequent contributions
<b>Fidelity Investments</b> 1-800-544-1262	11 asset allocation portfolios - 8 aged based, and 3 static portfolios		X	\$1,000 initial investment, or automatic investments of \$50/monthly or \$150/quarterly
<b>Pacific Life</b> 1-800-722-2333	5 asset allocation portfolios; 14 individual mutual fund portfolios; choice of A, B & C share classes	X	X (for Arizona residents only)	\$500 initial investment, or automatic investments of \$50/monthly
<b>Securities Management and Research, Inc</b> 1-888-66-READY (888-667-3239)	10 portfolios or investment options; share classes A & B	X	X	Depending on option selected \$20, \$50, \$100 automatic investment or w/o automatic investment \$100, \$500 or \$1,000
<b>Waddell &amp; Reed</b> 1-888-WADDELL (888-923-3355)	3 asset allocation portfolios; share classes A, B & C	X		\$500 initial investment, or automatic investments of \$50/monthly option of \$25/monthly thereafter

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\*Source: www.401kid.com (2005).

\*\* Please consult a professional for tax and legal advice before making investments.

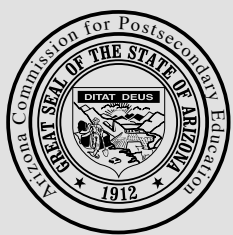


The Arizona Commission for Postsecondary Education (ACPE) is a state agency that assists Arizona students and their families with the information needed for postsecondary education. In addition to the development of the College Savings Planner, the ACPE also:

- Administers Arizona student financial aid programs
- Hosts the College Goal Sunday annual event which assists college bound high school seniors and returning adult students in completing financial aid forms
- Administers the Arizona Family College Savings Program (529 Plan)
- Publishes college preparation publications including *Measuring Your Child's Progress* and the *Arizona College and Career Guide*
- Serves as a forum for private and public postsecondary education to dialogue and collaborate on solutions and opportunities to better assist students

**...expanding access and increasing success in postsecondary education**

**[www.azhighered.gov](http://www.azhighered.gov)**



**Arizona Commission for Postsecondary Education**

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